

# Disclosure and Market Discipline Report

Made in accordance with the Cyprus  
Securities and Exchange Commission  
Directive DI144-2007-05  
As at 31 December 2012

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**A. Introduction**

This report pertains to the “Disclosure and Market Discipline of Investment Firms” regulatory obligation as stipulated in Chapter 7 of Cyprus Securities and Exchange Commission’s Directive 144-2007-05. Under this regulatory obligation the firm is required to disclose information relating to the capital it holds and each material category of risk it faces in order to assist clients and counterparties and to encourage market discipline. These disclosures aim to provide information on the risk exposures faced by the company and the risk assessment process it has in place to monitor these exposures. The risk management objectives and policies of TopFx Ltd are disclosed for each applicable category of risk, including the risks referred to under points 1 to 14 of the Appendix XII of Directives 144-2007-05 as these apply to Company’s current risk exposures. If risks referred to under points 1 to 14 do not apply, no reference is made.

**Definitions:**

TopFx Ltd: the “Company”,

Cyprus Securities and Exchange Commission: “CySec”

Directive Di144-2007-05 of the Cyprus Securities and Exchange Commission for the Capital Requirements of Investment Firms of 2011: the “Directive”.

Frequency: The Company will be making these disclosures annually.

Media and Location: The disclosure will be published on our website: <http://www.topfx.com>

Scope of report: The disclosures are in accordance to the audited financial statements of the Company for the year ended 31 December 2012.

**B. Scope of Application**

The Company TopFx Ltd was incorporated in Cyprus on 24.09.2010 as a limited liability company. TopFx Ltd is a licensed Cyprus Investment Firm regulated by the Cyprus Securities & Exchange Commission (CySec) with license number 138/11. The Company activated the license at 1 of March 2012. TopFx Ltd obtained an Investment Firm authorization from the Cyprus Securities and Exchange Commission (CySec) to offer:

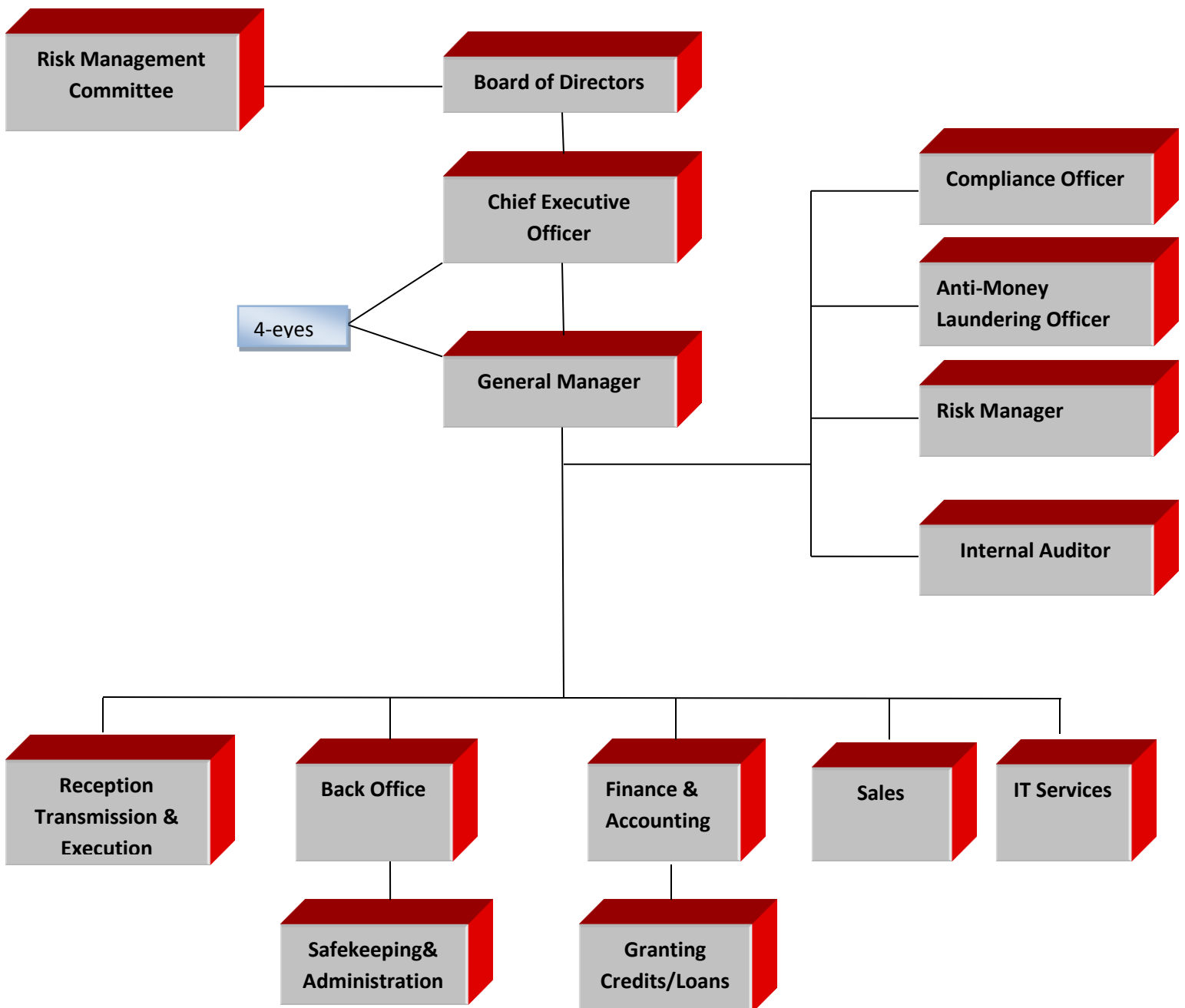
**Investment Services:**

1. Reception and transmission of orders in relation to one or more financial instruments
2. Execution of Orders on behalf of clients

## Ancillary Services of:

- 1) Safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management
- 2) Granting credits or loans to an investor to allow him to carry out a transaction in one or more financial instruments, where the firm granting the credit or loan is involved in the transaction
- 3) Foreign exchange services where these are connected to the provision of investment services.

## Diagram of Organizational Structure



### C. Capital Base

TopFx Ltd calculates its regulatory own funds and capital adequacy ratio on an individual basis. The Company's Eligible Own Funds includes only Original Own Funds (Tier 1 Capital). Tier 1 capital is a core measure of a Company's financial strength from a regulator's point of view. It is composed of share capital, share premium and reserves (excluding revaluation reserves) including the profits and losses brought forward as a result of the application of the final profit or loss.

The table below presents the Company's capital base as at 31 December 2012:

	€
Share Capital	10,000
Share Premium	740,000
Advances from shareholders	313,656
Reserves	0
Accumulated losses	(362,294)
<b>Total Eligible Own Funds</b>	<b>701,361</b>

### D. Capital Requirements

According to the Directive, the Company's Board of Directors has decided that most appropriate methods for measuring the capital requirement are:

- Credit and Market Risk using the Standardized Approach
- Operational Risk using the Basic Indicator Approach

The Company calculates the capital adequacy ratio on a monthly basis and monitors its direction in order to ensure its compliance with externally imposed capital requirements.

The total Capital Requirements as at 31 December 2012 are shown in the table below:

	€ amount in thousands
Credit, Counterparty Credit and Dilution Risks and Free Deliveries capital requirements	24
Settlement/Delivery Risk	0
Position, Foreign Exchange and Commodities Capital Requirements	0
Operational Risk Capital Requirements	92
Other and Transitional Capital Requirements	
<b>Total Capital Requirements</b>	<b>116</b>
<b>Capital Adequacy Ratio</b>	<b>48.33%</b>
<b>Minimum Capital Adequacy ratio</b>	<b>8%</b>

The Capital Adequacy ratio of the company is 48.33 % much higher than the minimum required 8% and is generally maintained at high levels as per Board of Directors policy. During the year 2012, the ratio never fell below of what is deemed minimum by CySec.

### **E. Risk Management**

The Management recognizes that risk is embedded in all the Company's activities. Risk is about uncertainties – that may have either a positive (constructive) or negative (destruction) impact. A risk is an opportunity that will not be realized or a threat that an event or action will materialize. That missed opportunity or unmanaged threat in turn damages an organization's ability to deliver results for stakeholders and to achieve business objectives. The Company has designed its risk management framework to be proportionate to the scale, nature and complexity of its business, and is comprised of the following components:

1. Compliance
2. External Audit
3. Internal Audit
4. Internal Control
5. Risk Management Committees.

In the course of its operating activities, the Company has to face and tackle the following risks:

1. Credit risk
2. Liquidity risk
3. Market risk:
  - a) Currency risk
  - b) Interest rate risk
4. Operational risk
5. Compliance risk
6. Reputation Risk
7. Capital risk management

#### **1. Credit Risk**

The company adopts the Standardized approach for Credit risk. The Company has no significant concentration of credit risk. Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the reporting date. Cash balances are

held with high credit quality financial institutions and the Company has policies to limit the amount of credit exposure to any debtors or financial institution.

The breakdown of credit risk requirements used for calculating the Capital Adequacy ratio as at 31 December 2012 is presented below:

<b>Asset Class</b>	<b>Exposure amount (€ amount in thousands)</b>
Institutions	682
Other Assets	90
<b>Risk weighted Assets:</b>	
Total Risk weighted assets(RWA)	295
<b>Credit Risk(8% of total RWA)</b>	<b>24</b>

## **2. Liquidity risk**

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The company maintains sufficient liquidity to manage known and unanticipated funding needs.

Liquidity is managed in accordance with a framework of policies and controls such as:

- maintaining sufficient cash deposits and highly liquid assets
- performing monthly reconciliations of cash balances.

No maturity table disclosing the undiscounted cash flows of the underlying liabilities has been presented as all outstanding balances are due within 12 months and consequently their carrying amounts are representative of their contractual cash flows and the impact of discounting is not significant.

## **3. Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

As per the CIF License and legislation of the Republic of Cyprus the Company doesn't effect dealing on its own account, thus the market risks are kept at minimum level. The Company adopted the Standardized approach for Market risk. The standardized measurement method for the capital requirement for position risk in equities adds together the long and short positions of equities according to predefined models to determine the capital requirement.

**a) Currency risk**

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in a foreign exchange rates. Currency risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the company's measurement currency. The main sources of foreign exchange risk for the company are certain bank balances in foreign currencies.

**b) Interest rate risk**

Interest rate risk is the risk that the value of financial assets or liabilities may fluctuate as a result of changes in the market interest rate environment which might include changes in the overall level of interest rates, the volatility of interest rates and the interest rate spreads

**4. Operational risk**

Operational risk is the risk of loss arising from fraud, unauthorized activities, error, omission, inefficiency, systems failure or external events. It is inherent in every business organization and covers a wide range of issues.

Based on the Company's operations, it has been decided that the Basic Indicator Approach, is the most appropriate method to be used to measure the Operational Risk capital requirements.

According to the Basic Indicator Approach the capital requirement for Operational Risk is calculated by applying 15% rate on the average sum of the net incomes of the last three twelve month observations, at the end of the financial year.

Taking into account that the Company operates from 2012, estimates made in the Business plan of the Company were used instead of observations for two financial years. In the table below the requirements for operational risk, as at 31 December 2012 are presented:

Operational Risk	Average sum of net income ( € amount in thousands)
<b>Net income of the last three twelve month observation</b>	616
<b>Other income</b>	0
<b>Total</b>	616
<b>Average sum</b>	616
<b>Capital requirements</b>	<b>92</b>

**5. Compliance risk**

Compliance risk is the risk of financial loss, including fines and other penalties, which arises from non-compliance with law and regulations of the state. The risk is limited to a significant extent due to the supervision applied by the Compliance Officer, as well as by the monitoring controls applied by the Company.

**6. Reputation risk**

The risk of loss of reputation arising from the negative publicity relating to The Company's operations (whether true or false) may result in a reduction of its clientele, reduction in revenue and legal cases against The Company. The Company applies procedures to minimize this risk.

**7. Capital risk management**

The Company's objectives in managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. The company monitors capital on the basis of the gearing ratio. This ratio is calculated as debt divided by total capital. Net debt is calculated as total borrowings. Total capital is calculated as "equity" as shown in the statement of financial position plus net debt.

**E. Disclosure regarding the remuneration policy and practices of the company**

The Company's remuneration policy and disclosure are subject to the principle of proportionality, which takes into account the scale, nature and complexity of the activities of the Company. The remuneration policy has been prepared by the CEO, who is also responsible for Human Resources issues, and has been reviewed and approved by the Board of Directors. The CEO remuneration is defined directly by the Board of Directors. Updates to the remuneration policy are performed by the CEO and are submitted to the Board for the approval.

The level of remuneration offered by the Company to the management and staff is established based on skills, knowledge, individual performance and market rates. Staff performance is assessed on an annual basis through the Company's HR processes, based on a range of performance criteria (financial and non-financial).

The remuneration components are:

- Fixed remuneration: This is determined based on the role, responsibilities, job complexity and performance of the individual employee, while it also takes into account the local market conditions.



- Performance-based / variable remuneration: This type of remuneration is intended to motivate and reward high performers who reinforce the work and results of their departments and add value to the Company as a whole. The general Manager may, if considered appropriate, propose to the Board that a percentage of performance-based remuneration is granted to certain employees, depending on their position and the value they add to the Company. Performance-based remuneration may be disbursed as cash bonus.
- Other benefits: May be awarded on the basis of individual employment contracts and local market practise.

Employees in credit and control functions are generally not eligible for performance-based pay and therefore only receive remuneration in the form of fixed salaries. However, it is possible that a recommendation is made by the CEO to the Board for a performance-based pay to be given to such employees in recognition of the value added on the control and risk management procedures and the improvements of current systems in place.

Members of the Board of Directors receive a fixed fee and are not covered by incentive programmes or performance-based remuneration. The basic fee of a Board member is set at a level that is on par with the rest of the market and takes into account the qualifications and commitment required to perform the role, the relevant responsibilities and the number of Board meetings. No pension contributions are payable on the Board member's fees.

During 2012, the remuneration structure offered by the Company to management and staff comprised of a fixed salary component only. Information on the aggregate remuneration to Directors and staff as at 31 December 2012 is provided in the Table below:

**a) Aggregate quantitative information on remuneration, broken down by business area**

Business Area	Total fixed remuneration €	Total variable remuneration €
<b>Reception, Transmission &amp; Execution of orders</b>	453,453	0
<b>Total</b>	<b>453,453</b>	<b>0</b>

**b) Aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the investing firm, indicating the following:**

**1) The amounts of remuneration of the financial year, split into fixed and variable remuneration, and the number of beneficiaries:**

**Senior Management & Non-Executive Directors**

Fixed Remuneration €	Number of Beneficiaries	Variable Remuneration€	Number of Beneficiaries
166,312	5	-	-